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FOR DEPUTY ASSISTANT SECRETARY SOBER

FOLLOWING TELEGRAM FROM EC BRUSSELS DATED MARCH 29, 1976

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SUBJECT: EC PREPARATIONS FOR UNCAD IV AND THE CIEC COMMISSION
ON RAW MATERIALS

REF: EC BRUSSELS 2766

1. SUMMARY: THE MISSION IS SUMMARIZING A LENGTHLY COMMISSION
PAPER ON RAW MATERIALS WHICH ANALYZES THE MARKET STRUCTURES
FOR THE 17 UNCTAD COMMODITIES AND SUGGESTS APPROPRIATE INSTRU-
MENTS TO BE APPLIED TO EACH CASE. THE PAPER HAS BEEN THE BASIS
OF AN EC COUNCIL WORKING GROUP'S DISCUSSION OF SPECIFIC COM-
MODITIES. ITS PURPOSE WAS TO GUIDE DISCUSSION RATHER THEN
PRESENTDEFINITE PROPOSALS. FURTHER WORKING GROUP DISCUSSIONS
OF INDIVIDUALCOMMODITIES WILL TAKE PALCE IN THE COMING WEEKS
SINCE THE FIRSTGO-ROUND WAS NOT CONSIDERED VERY CONCLUSIVE.
END SUMMARY.

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2. AS PART OF ITS EFFORT TO DEVELOP AN EC POLICY ON

RAW MATERIALS FOR UNCAD IV AND THE CIEC COMMISSION N

RAW MATERIALS (CORM), THE COUNCIL WORKING GROUP ON RAW

MATERIALS HAS DISCUSSED THE SEVENTEEN UNCTAD COMMODITIES

ON THE BASIS OF A LONG PAPER PREPARED BY THE EC COMMISSION. WE SHALL BRIEFLY SUMMARIZE THE PAPER, WHICH IS AVAILABLE IN FRENCH IN EC/ORF/ICD, ADDING A FEW COMMENTS WE PICKED UP FROM JOSE NICOLAI OF THE EC COMMISSION ON MEMBER STATE REACTIONS DURING THE INITIAL DISCUSSIONS. WE UNDERSTAND FURTHER WORKING GROUP DISCUSSION OF SPECIFIC COMMODITIES WILL TAKE PLACE AND THAT THE COMMISSION WILL BRING ADDITIONAL INFORMATION TO THE DISCUSSION.

3. THE COMMISSION PAPER, ENTITLED THE IMPROVEMENT OF MARKET STRUCTURES, (L'AMELIORATION DES STRUCTURES DE MARCHES) IS DIVIDED INTO TWO PARTS. THE FIRST PART PROVIDES A THEORETICAL ANALYSIS OF COMMODITY MARKET STRUCTURE WITH AN IDENTIFICATION OF PROBLEMS AND RECOMMENDED MECHANISMS TO ELIMINATE THE PROBLEMS. THE SECOND PART OF THE PAPER CONTAINS A BRIEF DESCRIPTION OF THE MAJOR CHARACTERISTICS OF EACH OF THE SEVENTEEN COMMODITIES (E.G. PRODUCTION, TRADE, CONSUMPTION, PRICE) AND OUTLINES POSSIBLE INTERNATIONAL ACTION.

4. THE ANALYSIS OF MARKET STRUCTURE AND INSTRUMENTS CAPABLE OF RESPONDING TO THE PROBLEMS: IT FIRST SHOULD BE POINTED OUT THAT WHAT THE COMMISSION MEANS WHEN IT SPEAKS OF MARKET STRUCTURES IS NOT THE ROLE OF COMMODITY EXCHANGES OR CURRENT COMMERCIAL PRACTICES FOR PARTICULAR COMMODITIES. IT USES THE TERM "MARKET STRUCTURE" IN A GENERIC SENSE TO DESCRIBE AND GROUP COMMODITIES ON THE BASIS OF THREE CRITERIA: A) THE METHOD OF PRICE FORMATION, E.E. FREE MARKET, VERTICAL INTEGRATION, PRODUCERS CARTELS; B) THE DEGREE OF INSTABILITY OF PRICES; AND C) THE LONG-TERM EVOLUTION OF A COMMODITY'S TERMS OF TRADE. USE OF THESE THREE CRITERIA RESULT IN SIX GROUPS OF COMMODITIES: GROUP I--FREE MARKET, UNSTABLE PRICES, SATISFACTORY LONG TERM TERMS OF TRADE (COFFEE, WOOL, COPPER, TIN)
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GROUP II--FREE MARKET, UNSTABLE PRICES,
DETERIORATING TERMS OF TRADE (COCOA, HARD FIBRES)

GROUP III--FREE MARKET, (STABLE PRICES, DETERIORATING TERMS OF TRADE (TEA, JUTE)

GROUP IV--FREE MARKET, STABLE PRICES, SATISFACTORY LONG TERM TERMS OF TRADE (COTTON, TROPICAL WOODS).

GROUP V--VERTICALLY ADMINISTERED PRICES, STABLE PRICES, DETERIORATION OF TERMS OF TRADE (BANANAS, BAUXITE, IRON ORE, MANGANESE)

GROUP VI--PRICES SET BY PRODUCERS, STABLE PRICES, IMPROVEMENT IN TERMS OF TRADE (PHOSPHATE).

5. IN THE NEXTSTEP OF THE ANALYSIS THE COMMISSION SETS OUT FIVE OBJECTIVES AND RELATES THE OBJECTIVE TO MARKETSTRUCTURES (I.E.THE SIX GROUPS).THE OBJECTIVES ARE A) TO REDUCE INSTABILITY OF PRICE; B) TO ALTER THE STRUCTURAL DISEQUILIBRIUM BEWEEN SUPPLY AND DEMAND; C) TO INCREASE THE POSSIBILITIES FOR PROCESSING AND ACCESS TO THE DC MARKETS FOR PROCESSED PRODUCTS, D)TO ASSURE SECURITY OF SUPPLY A STABLE PRICES, E) TO IMPROVE THE EARNINGSOF PRODUCING COUNTRIES. THE COMMISSON'S RELATIONSHIP OF "GROUPS" WITH "OBJECTIVES" IS:

GROUP I--(A) AND (D)
GROUP II--(A) (B) AND (C)
GROUP III--(O)
GROUP IV
-(K:;)GROUP V
-(E)
GROUP VI
-(D)

6. THE FINAL STEP IN THE COMMISSION'S ANALYSIS MATCHES OBJECTIVES WITH INSTRUMENTS. THE INSTRUMENTS (MECHANISMS) ARE: COMMERCIAL (STOCKS, QUOTAS, LONG-TERM CONTRACTS); TARIFFS (EXPORT TAXES OR LEVIES, TARIFF CONCESSIONS); FINANCIAL (DEFICIENCY PAYMENTS, EXPORT EARNING STABLIZATION BY PRODUCT); COOPERATION (COMMERCIAL PROMOTION, INDUSTRIAL COOPERATION, ENCOURAGEMENT OF INVESTMENT, DIVERSIFICATION) . THE LIMITED OFFICIAL USE
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COMMISSION THEN MATCHES INSTRUMENTS WITH OBJECTIVES AND THE OUTCOME HAS OBJECTIVE(A) REQUIRING COMMERCIAL AND FINANCIAL INSTRUMENTS; OBJECTIVE (B) FINANCIAL INSTRUMENTS AND COOPERATION; OBJECTIVE (C) TARIFF MEASURES AND COOPERATION; OBJECTIVE (D) COMMERCIAL MEASURES AND COOPERATION; AND OBJECTIVE (E) PRODUCTION OR EXPORT QUOTAS PLUS TARIFF AND FINANCIAL MEASURES.

7. THE CONCLUSION OF THIS ANALYSIS, WHICH IS NOT SPELLED OUT IN THE PAPER, WOULD HAVE THE PROBLEMS OF COFFEE, WOOL, COPPER AND TIN BEING HANDLED BY STOCKING, LONG-TERM CONTRACTS AND EXPORT EARNING STABILIZATION BY PRODUCT. COCOA, HARD FIBRES AND RUBBER WOULD REQUIRE STOCKS, LONG-TERM CONTRACTS, DEFICIENCY PAYMENTS AND COOPERATION. TEA AND JUTE WOULD REQUIRE DEFICIENCY PAYMENTS AND COOPERATION. COTTON AND TROPICAL WOODS WOULD REQUIRE AN IMPROVEMENT OF TARIFF PREFERENCES AND COOPERATION. BANANAS, BAUXITE,IRON ORE AND MANGANESE WOULD REQUIRE PRODUCTION OR EXPORT QUOTAS, EXPORT LEVIES AND EXPORT EARNING STABILIZATION BY PRODUCT.PHOSPHATES WOULD REQUIRE

STOCKS, LONG-TERM CONTRACTS AND COOPERATION.

8. THE ABOVE ANALYSIS IS OBVIOUSLY HIGHLY MECHANICAL AND THE COMMISSION'S DISCUSSION OF THE ANALYSIS IS MORE NUANCED AND OFFERS DETAILS ON PARTICULAR COMMODITIES.

9. DESCRIPTION OF SPECIFIC COMMODITIES: WE SHALL BRIEFLY DESCRIBE THE COMMISSION'S SUGGESTED INTERNATIONAL ACTIONS ON NINE OF THE TEN CORE COMMODITIES IN THE UNCTAD INTEGRATED PROGRAM AND COMMENTS OF THE COUNCIL WORKING GROUP.

(A) COFFEE-- THE COMMISSION DESCRIBES THE EXISTING AGREEMENT AND NOTES THAT THE NEXT PROBLEM WILL INVOLVE THE RE-EXAMINATION OF PRICE LEVELS. THE WORKING GROUP AGREED THAT AS THERE WAS AN INTERNATIONAL AGREEMENT THERE IS NOTHING ELSE TO DO AS THIS TIME.

(B) COCOA-- THE COMMISSION'S CONCERN IS THAT ALL OF THE MEMBER STATES SIGN THE COCOA AGREEMENT ON TIME. IT NOTES THE RELUCTANCE OF THE US AND THE IVORY COAST LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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TO SIGN THE AGREEMENT AND STATES THAT IF THERE ARE NOT ENOUGH SIGNATURES FOR THE AGREEMENT TO BECOME EFFECTIVE, THE EC AND THE MEMBER STATES SHOULD BE PREPARED TO NEGOTIATE ON A DIFFERENT BASIS IN ORDER TO HAVE AS LARGE A CONSENSUS AS POSSIBLE WHICH WOULD INCLUDE THE US AND THE IVORY COAST. THE COUNCIL WORKING GROUP EXPRESSED A DESIRE TO HAVE THE US AND THE IVORY COAST PARTICIPATE IN THE AGREEMENT.

(C) TEA--THE COMMISSION POINTS OUT THAT THE DISCUSSION OF AN INTERNATIONAL AGREEMENT DEPENDED ON AGREEMENTS ON EXPORT QUOTAS WHICH WERE RESISTED BY AFRICA'S TEA PRODUCERS. SUGGESTED SOLUTIONS ARE 1) DEFICIENCY PAYMENTS FINANCED BY EXPORT LEVIES OR BUDGETARY TRANSFERS OR 2) GENERAL AID PROGRAMS AIMED AT DIVERSIFICATION FOR CERTAIN TEA PRODUCERS AND PARTICULARLY SRI LANKA. THE WORKING GROUP NOTED THAT AN INTERNATIONAL AGREEMENT DEPENDED ON THE DESIRE OF PRODUCERS TO HAVE SUCH AN AGREEMENT. IT FELT THAT DIVERSIFICATION MADE SENSE BUT INTO WHAT? TRADE PROMOTION COULD HELP. THE GROUP COULD NOT SUPPORT AN AGREEMENT WITH BUFFER STOCKS. (IN OUR DISCUSSION OF TEA NICOLAI NOTED THAT NONE OF THE MEMBER STATES WOULD AGREE TO DEFICIENCY PAYMENTS FOR SUB-MARGINAL PRODUCERS. NOR DID THEY BELIEVE THAT EXPORT EARNING STABILIZATION BY PRODUCT SHOULD BE HANDLED WITHIN THE FRAMEWORK OF A COMMODITY AGREEMENT. NICOLAI, HOWEVER, THOUGHT EXPORT EARNING STABILIZATION BY PRODUCT WITHIN AGREEMENTS MIGHT BE APPROPRIATE FOR AGRICULTURAL

PRODUCTS WHERE PRODUCERS SUFFER EARNINGS
SHORTFALLS BECAUSE OF POOR HARVESTS.)

(D) NATURAL RUBBER-- THE COMMISSION SEES THE
POSSIBILITY FOR AN INTERNATIONAL AGREEMENT ON THE
BASIS OF A FRAMEWORK OUTLINED BY THE ASSOCIATION OF
NATURAL RUBBER PRODUCING COUNTRIES (ANRPC). THIS
WOULD BE ON THE CONDITION THAT THE CONSUMING COUNTRIES
PARTICIPATE AT ALL LEVELS, THAT THE PRICE IS ESTABLISHED
TAKING INTO CONSIDERATION THE PRICE OF SYNTHETIC RUB-
BER AND THAT SUPPLY GUARANTEES ARE GIVEN TO CONSUMERS.

(E) COTTON--THE COMMISSION FINDS IT VERY DIFFI-
CULT TO HAVE AN AGREEMENT IN COTTON BECAUSE OF THE
LARGE NUMBER OF PRODUCES AND VARIETIES, THE SHIFTS
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IN DEMAND FOR DIFFERENT QUALITIES, ETC. TO PROMOTE
PRICE AND INCOME STABILITY THE COMMISSION RECOMMENDS
IMPROVING QUALITY LONG-TERM CONTRACTS AND THE PO-
SSIBILITY OF COMPENSATION IN CASE OF CROPS FAILURES.
IT RULES OUT RUBBER STOCKS BECAUSE UNTIL 1970 PRICES
DID NOT FLUCTUATE WIDELY AND PREFERS LONG-TERM
CONTRACTS. THE WORKING GROUP APPEARED TO ACCEPT
THESE CONCLUSIONS.

(F) HARD FIBERS -THE COMMISSION STATES THAT
THE UNOFFICIAL ARRANGEMENT OF THE INTERGOVERNMENTAL
HARD FIBRES GROUP (FAO) (EXPORT QUOTAS, INDICATIVE
PRICES), COULD CONSTITUTE THE BASIS FOR AN INTER-
NATIONAL AGREEMENT ON THE CONDITIONS THAT 1) THE PRICE
IS ESTABLISHED IN ACCORD WITH CONSUMERS AND THE
PRICE OF SYNTHETICS ARE TAKEN INTO CONSIDERATION:
2) CONSUMERS ARE GIVEN SUPPLY GUARANTEES IN EXCHANGE
FOR OPENING THEIR MARKETS TO FINISHED PRODUCTS; AND
3) CONTRACTS ARE RESPECTED. IF AN INTERNATIONAL
AGREEMENT IS IMPOSSIBLE, THE COMMISSION SUGGESTS CON-
SIDERING A GENERALIZATION OF THE EXPORT EARNING STABILIZATION BY
PRODUCT SYSTEM.

G) JUTE- THE COMMISSION SUGGESTS THAT THE EX-
ISTING UNOFFICIAL ARRANGEMENT OF THE INTERGOVERN-
MENTAL GROUP ON JUTE, KENAF AND RELATED FIBERS (FAO)
COULD PROVIDE THE BASIS FOR AN INTERNATIONAL AGREEMENT
IF: 1) PRICES ARE ESTABLISHED BY AGREEMENTS BETWEEN
PRODUCERS AND CONSUMERS TAKING INTO ACCOUNT THE COM-
PETITION OF SYNTHETICS; 2) A GUARANTEE OF SUPPLY IS
GIVEN TO CONSUMERS IN EXCHANGE FOR THE PROGRESSIVE
OPENING OF MARKETS TO THE FINISHED PRODUCTS FROM
THE POOREST LDCS (BANGLADESH, INDIA, THAILAND):
JEL THE EXPORT EARNINGS FROM THE CRUDE JUTE OF THE
ABOVE COUNTRIES ARE STABILIZED AND; 4) THE
PRODUCTIVITY OF JUTE PRODUCTION IS IMPROVED. THE WORKING GROUP
REACHED NO CONCLUSION ON JUTE BUT THOUGHT PROCESSING
IN PRODUCING COUNTRIES SHOULD BE STUDIED.

(H) COPPER: THE COMMISSION ARGUES THAT WHILE OTHER MECHANISMS ARE POSSIBLE, THE MOST COMPLETE INTERNATIONAL AGREEMENT FOR COPPER WOULD BE BASED ON BUFFER STOCKS, ALTHOUGH EXPORT QUOTAS WOULD BE INCLUDED. IT THEN CITES A SERIES OF ARGUMENTS FOR LIMITED OFFICIAL USE
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AND AGAINST BUFFER STOCKS. IT OBSERVES THAT:
1) THERE MIGHT BE A POLITICAL ADVANTAGE FOR THE COMMUNITY IN PROPOSING MOVES LEADING TO THE ESTABLISHMENT OF AN INTERNATIONAL COPPER AGREEMENT WL IF BUFFER STOCKS ARE AN APPROPRIATE SOLUTION THE TIME TO PUT THEM INTO EFFEC IS NOW WHILE COPPER IS CHEAP AND STOCKS ARE HIGH AND 3) THE MAJOR COPPER PRODUCERS ARE PARTICIPATING IN THE NORTH-SOUTH DIALOGUE. AT THE WORKING GROUP, FRANCH EMPHASIZED THE ARGUMENTS FOR COPPER BUFFER STOCKS AND GERMANS THOSE AGAINST.
(I) TIN- THE COMMISSION EXPRESSES SATISFACTION WITH THE FIFTH IN AGREEMENT WHICH IT CONSIDERS BETTER BALANCED THAN THE PREVIOUS ONE AND NOTES US PARTICIPATION. IT HOPES THAT CONSUMERS WILL PARTICIPATE IN ITS FINANCING. HINTON UNQTE KISSINGER

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